English translation of the Weekly Web Release

MINISTRY OF FINANCE IN ICELAND

November 17, 2005

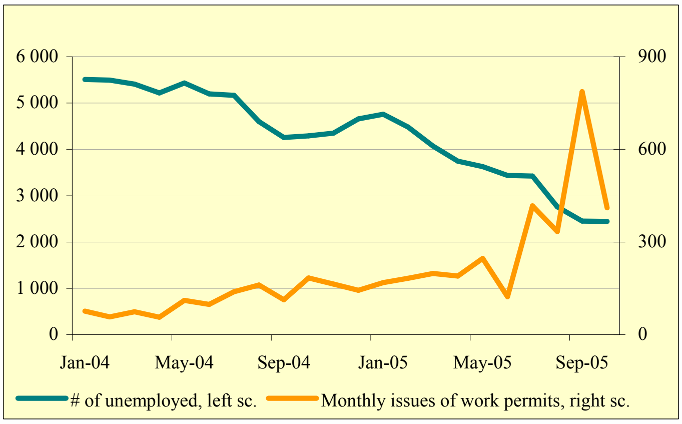
Fast growth of the labour market

It must be apparent to all who follow developments in the Icelandic economy that the demand for labour is quite buoyant at present. The low unemployment figures and the pronounced increase in the inflow of foreign labour bear witness to this development. Employers complain that the processing of granting work permits to foreign workers is slow and impeding growth. But what has actually happened?

The number of persons in the labour force was about 161,000 in the first quarter of this year, including both employed and unemployed. The number of unemployed stood at nearly 4,800 in January, declining to 2,446 last month. Most of those who leave the unemployment rolls get a job, but some go abroad, back to school or are registered as disabled. The number of persons employed has increased by at least 1 per cent due to the decline in unemployment.

There are no actual statistics on the number of foreign workers in the country. This is because persons from the European Economic Area (excepting those from the new member states of the EU) have free access to the Icelandic labour market. Workers from outside the EEA area must, however, obtain a work permit. A total of 3,059 work permits have been issued in the first ten months of this year, of which 1,949 were issued from July to October. The previous peak was reached in the expansion at the end of the last century when a total of 1,100 permits were issued in one four-month period. Not all of those receiving work permits actually come here to work. This is the experience from the last wave of work permit issues when fewer persons actually came to the country than the number of issued permits indicated. It is also evident that a number of persons are at present working in the country without permits, partly under the auspices of temporary work agencies.

Developments in the labour market



The Ministry of Finance estimates that the number of foreign workers has increased by 3,000 this year, equivalent to 1,9 per cent of those employed in the first quarter. Employment participation has also increased, estimated at another 3,000. Finally, the number of persons of working age has increased by about 1,500 this year. The number of persons employed could thus increase by up to 9,000 this year, one-third of which are foreigners.

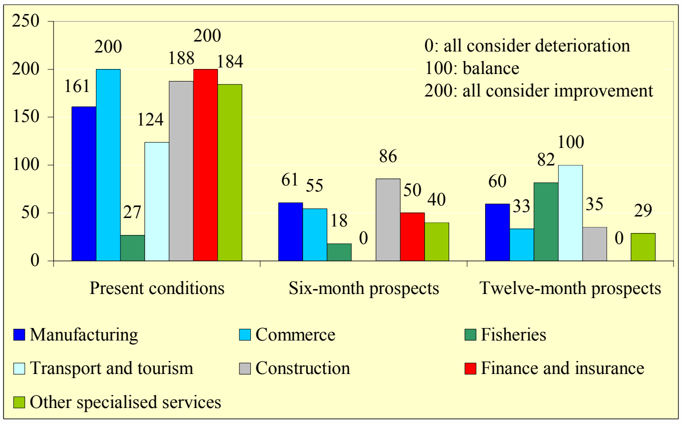
These figures clearly show that this expansion in the Icelandic economy is different from previous expansions because there are more possibilities to meet the rapid growth in the demand for labour. In previous expansions, the rise in the demand for labour drove up wages. The increased supply of foreign labour is mitigating this tendency in many sectors.

New Gallup survey of business expectations

IMG Gallup has recently conducted a survey of expectations of the largest firms on behalf of the Ministry of Finance, the Central Bank and the Confederation of Icelandic Employers. The survey was conducted over the period from September 30th to November 1st and covered 391 companies. The response rate was 69 per cent.

A total of 71 per cent of those responding thought that present economic conditions were generally good, 20 per cent thought they were adverse, mostly companies in the fisheries sector. When asked about expectations of economic conditions six months hence, 8 per cent thought they would improve, 63 per cent said they would be about the same and 29 per cent expected them to worsen. When asked of the situation twelve months from now, about half thought it would worsen and only 16 per cent said it would improve.

Indicators of business expectations



This survey reflected somewhat increased pessimism compared to the previous survey conducted in February of this year, when 16 per cent of the respondents expected the economic situation to worsen over the next six months and a third thought so over the next twelve months. Opinions vary by sector. Those in fisheries, transport and tourism are generally more pessimistic with regard to the situation six months hence but in turn more optimistic concerning the state of the economy twelve months from now, in contrast to other sectors.

The state of discussions on double-taxation agreements

Discussions between Iceland and India were held in New Delhi on November 9th-11th. This was the first meeting between the committees of the two countries, and good progress was made in the drafting of a double-taxation agreement. The next meeting is scheduled for the first half of next year, when it is expected that an agreement will be finalised.

Discussions on a double-taxation agreement between Iceland and Greece began in 2002. The drafting of an agreement could not be finalised, but a second round of discussions will take place in Athens on December 1st and 2nd. It is hoped that a draft agreement can be finalised at that meeting.

The first drafting session between Iceland and the Ukraine took place in 2004. The second session will take place in Reykjavík on December 12th-14th. It is hoped that a draft agreement can be finalised at that meeting.

A double-taxation agreement between Iceland and Hungary will be signed in Budapest on November 23rd.

Treasury revenue, January-September		
12 month changes %	2003-2004	2004-2005
Total tax revenue	15.4	22.0
Income taxes	20.4	23.9
Social security taxes	10.1	16.4
Asset taxes	21.6	44.8
Indirect taxes	13.4	20.2
Total revenue	7.4	51.8

Treasury expenditure, January-September		
12 month changes %	2003-2004	2004-2005
Administration	9.2	3.2
Social affairs	10.0	6.3
Economic affairs	12.5	-3.1
Interest	-7.4	43.2
Other	0.8	78.6
Total expenditure	8.7	9.7

Treasury finances, January-September		
Million krónur	2004	2005
Cash from operations	-10,405	14,581
Net financial balance	-2,436	59,746
Debt redemption	-30,843	-47,939
Gross borr. requirement	-38,904	8,857
Net borrowing	40,679	11,698
Overall cash balance	1,775	20,555

Economic indicators		
12 month changes %	2004	2005
Inflation – Nov.	3.8	4.2
Core inflation 1 – Nov.	3.3	4.6
Wage index – Sept.	5.3	6.9
Total turnov. – Jan-June	9.8	8.7
Retail turnov. – Jan-June	5.3	9.0
Unemploym. (%) – Oct.	2.7	1.4

Ed. Thorsteinn Thorgeirsson: mail: thorsteinn.thorgeirsson@fjr.stjr.is – Dir. Baldur Guðlaugsson. Website: http://ministryoffinance.is